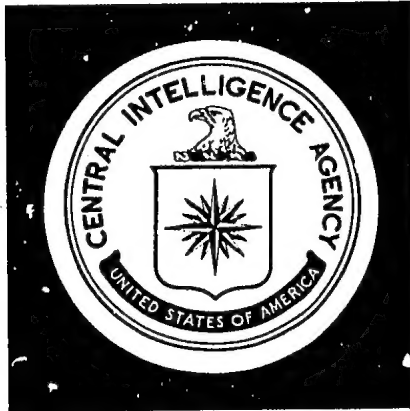


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Petroleum Trade Between Communist
and Western Countries in 1971*

Secret

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July 1972

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**CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1972**

INTELLIGENCE MEMORANDUM

**PETROLEUM TRADE BETWEEN COMMUNIST
AND WESTERN COUNTRIES IN 1971**

Summary

1. In 1971, Communist⁽¹⁾ petroleum exports to the West stagnated while imports continued to increase. These exports – about 53 million metric tons – were divided about evenly between crude oil and products. Italy, Finland, West Germany, Sweden, and France took more than two-thirds of these exports. The USSR supplied 88% of the total, Romania 6%, and the rest of Eastern Europe another 6%. Although the volume was about the same as in 1970, the value rose 7% to \$770 million because of higher prices; hard currency earnings from these sales increased 19% to \$530 million.

2. Communist imports rose 23% to 10 million tons, of which all but 400,000 tons were crude oil. Some 33% was imported by the USSR primarily for delivery to other Communist countries; Romania's share was 28%, while the rest of Eastern Europe took 39%. Communist countries obtained this oil primarily in barter arrangements with Middle East producers, thus avoiding hard currency expenditures. These imports permitted the USSR to maintain oil exports in the face of increasing domestic demand. The East European countries, particularly Romania, were able to refine this crude oil for export to hard currency markets.

3. The Communist oil export surplus will slowly decline as local demand continues to outpace domestic output. While exports to the West probably will remain between 50 million and 55 million tons annually for the next four years, earnings are certain to increase as world oil prices

1. Comprising the USSR, Bulgaria, East Germany, Czechoslovakia, Hungary, Poland, and Romania.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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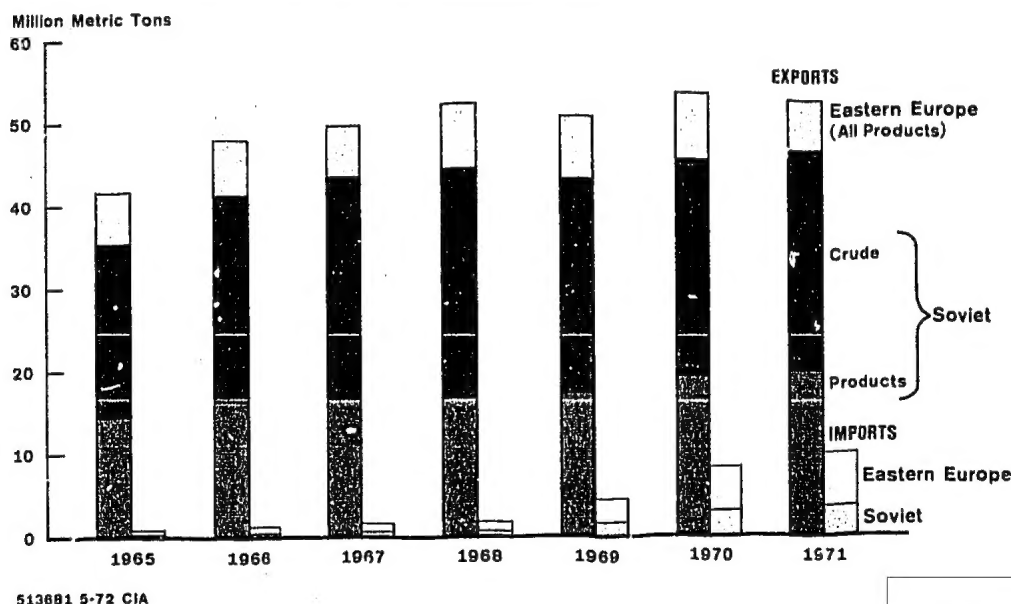
continue to rise. Although imports are expected to grow, dependence on Western sources will remain quite small. Foreign exchange will not be necessary, in the near term, to pay for most of the expected increase since the USSR and Eastern Europe, except for Poland, have trade and aid agreements with most major oil producing countries in the Middle East and Africa that provide for repayment in commodities, often including crude oil.

Discussion

Oil Exports

4. Communist oil sales to Western countries were about 53 million tons in 1971 (see the chart). Since 1966 such exports have varied only between 50 million and 53 million tons annually.

Communist Petroleum Trade with Non-Communist Countries



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5. West European countries took 44 million tons – 83% of the total – with Italy, Finland, and West Germany accounting for more than 50%. Japan, Egypt, and Greece were the only countries outside Western Europe to each receive more than a million tons of Communist oil (see Table 1).

6. In 1971, more than 90% of Communist oil exports to the West moved by tanker (see Table 2), of which almost 61% originated at Black Sea ports. Roughly one-half of Black Sea shipments were carried on Soviet-flag tankers.

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Table 1
Communist Oil Exports to the West a/
1971

	Thousand Metric Tons					
	USSR			Eastern Europe		
Destination	Crude Oil b/	Products	Total	Products	Total Petroleum	Percent of Recipient's Demand c/
Total	26,130	20,030	46,160	6,340	52,500	5
Western Europe	22,180	16,190	38,370	5,450	43,820	7
Austria	970	30	1,000	1,190	2,190	22
Belgium	410	710	1,120	100	1,220	4
Denmark	--	770	770	430	1,200	6
Finland	5,900	2,500	8,400	280	8,680	72
France	2,600	1,200	3,800	620	4,420	4
Iceland	--	100	400	--	400	67
Ireland	--	260	260	--	260	6
Italy d/	8,600	1,300	9,900	350	10,250	9
Netherlands	--	1,100	1,100	10	1,110	3
Norway	--	560	560	10	570	7
Spain*	250	100	350	10	360	1
Sweden	--	4,620	4,620	360	4,980	17
Switzerland	--	310	310	200	510	4
United Kingdom	150	20	170	40	210	Negl.
West Germany	3,300	2,310	5,610	1,850	7,460	5
Middle East	1,660	1,870	3,530	540	4,070	15
Cyprus*	--	170	170	--	170	25
Egypt*	1,000	810	1,810	110	1,920	24
Greece* e/	660	680	1,340	300	1,640	21
Syria*	--	50	50	90	140	7
Turkey*	--	160	160	40	200	2
Africa	950	420	1,370	50	1,420	32
Ghana*	150	50	200	--	200	25
Guinea*	--	80	80	--	80	26
Morocco*	800	100	900	--	900	47
Senegal*	--	100	100	50	150	60
Somali*	--	70	70	--	70	70
Tunisia*	--	20	20	--	20	2
Asia	1,340	1,480	2,820	40	2,860	1
Afghanistan*	--	140	140	--	140	47
Ceylon*	--	20	20	--	20	1
India*	--	320	320	40	360	2
Japan	1,340	980	2,320	--	2,320	1
Pakistan*	--	20	20	--	20	Negl.
Latin America	0	10	10	20	30	Negl.
Brazil*	--	10	10	20	30	Negl.
North America	0	60	60	240	300	Negl.
Canada	--	20	20	--	20	Negl.
United States	--	40	40	240	280	Negl.

* An asterisk indicates a less developed country; all others are developed countries.

a. Preliminary estimates derived primarily from information on tanker movements and from Western import data.

b. Excluding crude oil obtained from the Middle East and Africa and delivered on Soviet account.

c. Percent of demand for countries listed, excluding the United States. Oil from Communist countries represented about 4% of total demand in the Western world, excluding the United States.

d. Including about 900,000 tons that was probably transshipped to other West European countries.

e. Including about 400,000 tons that was probably transshipped to other West European countries.

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Table 2

Methods of Delivery and Ports of Origin
of Communist Oil Exports to the West
1971

<u>Deliveries</u>	<u>Million Metric Tons</u>			<u>Percent of Total</u>
	<u>USSR</u>	<u>Eastern Europe</u>	<u>Total</u>	
By tanker	<u>43.8</u>	<u>4.0</u>	<u>47.8</u>	<u>91</u>
Black Sea ports	26.0	3.0	29.0	55
Baltic Sea ports	16.3	1.0	17.3	33
Far Eastern ports	1.5	--	1.5	3
By rail and barge	<u>2.4</u>	<u>2.3</u>	<u>4.7</u>	<u>9</u>
Total	<u>46.2</u>	<u>6.3</u>	<u>52.5</u>	<u>100</u>

Soviet Union

7. Soviet oil exports to Western countries in 1971 increased by 800,000 tons to reach 46 million tons. Some 26 million tons were crude oil, and the remainder products. These exports, worth about \$685 million, earned close to \$460 million in hard currency. This compares with \$610 million and \$390 million, respectively, in 1970. Bilateral clearing arrangements accounted for \$225 million. Petroleum sales, the largest single source of Soviet hard currency earnings, accounted for 20% of such earnings in 1971. The increased value of Soviet oil exports reflected higher world oil prices occasioned by the higher revenues received by the major oil exporting countries. Hard currency earnings also increased because Austria, a fairly important customer, became a hard currency trading partner last year.

8. The USSR continued its oil swap arrangement with the British Petroleum Company (BP), which is designed to avoid high transport costs resulting from the Suez Canal closure. BP makes oil available at the Persian Gulf for Soviet markets east of Suez. The USSR makes a corresponding quantity available at Black Sea or Baltic ports for BP's West Europe markets. Some 800,000 tons were involved last year.

9. Almost 88% (40.4 million tons) of Soviet petroleum exports to the West went to developed countries (see Table 3) - about the same

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amount as in 1970. Shipments to less developed countries were 5.8 million tons, an increase of about 600,000 tons that reflected mostly increased deliveries to Greece and Egypt.

10. Soviet oil shipments to Communist countries⁽²⁾ increased by 6.5 million tons in 1971 to some 54 million tons - 54% of total Soviet oil exports (see Table 4). Eastern Europe received nearly 45 million tons; and almost 10 million tons went to North Vietnam, North Korea, Mongolia, Yugoslavia, and Cuba. Shipments to Eastern Europe met about 65% of local demand - 85% of demand if Romania, which normally does not import Soviet oil, is excluded.

Eastern Europe

11. East European oil exports to Western countries fell by 1.4 million tons in 1971 to a level of 6.4 million tons of products. These exports, worth an estimated \$85 million, earned about \$70 million in hard currency, compared with exports worth \$110 million, earning \$55 million in hard currency a year earlier. Bilateral clearing agreements accounted for the remaining \$15 million. Romanian exports, about 500,000 tons less than in 1970, still accounted for more than one-half the East European total (see the tabulation):

	<u>Thousand Tons</u>		
	<u>1969</u>	<u>1970</u>	<u>1971</u>
Eastern Europe	<u>7,750</u>	<u>7,770</u>	<u>6,340</u>
Bulgaria	120	180	60
Czechoslovakia	1,340	750	790
East Germany	730	1,110	990
Hungary	920	710	250
Poland	1,390	1,130	910
Romania	3,250	3,890	3,340

The substantial decrease in Eastern Europe's exports reflects the area's growing consumption and declining crude production. Refining capacity, however, still exceeds domestic needs and, given adequate imported crude oil, Eastern Europe will undoubtedly continue to export petroleum products, albeit in diminishing quantities, for many years.

2. Excluding approximately 2.5 million tons of oil delivered from Western countries on Soviet account in 1970 and 1971.

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Table 3

Soviet Oil Exports to the West

		Million Metric Tons						
<u>Destination</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	
Developed countries	<u>26.1</u>	<u>32.8</u>	<u>37.4</u>	<u>39.7</u>	<u>38.2</u>	<u>40.3</u>	<u>40.4</u>	
Western								
Europe	22.2	28.7	33.9	36.9	35.9	37.4	38.0	
Japan	3.9	4.1	3.3	2.8	2.2	2.7	2.3	
Less developed countries	<u>9.4</u>	<u>8.6</u>	<u>6.3</u>	<u>5.0</u>	<u>5.0</u>	<u>5.1</u>	<u>5.8</u>	
Total	<u>35.5</u>	<u>41.4</u>	<u>43.7</u>	<u>44.7</u>	<u>43.2</u>	<u>45.4</u>	<u>46.2</u>	

Table 4

Soviet Oil Exports

		Million Metric Tons						
<u>Destination</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	
Total <u>a/</u>	<u>64.4</u>	<u>73.6</u>	<u>79.0</u>	<u>86.2</u>	<u>89.3</u>	<u>93.3</u>	<u>100.6</u>	
Western countries	35.5	41.4	43.7	44.7	43.2	45.4	46.2	
Communist countries	28.9	32.2	35.3	41.5	46.1	47.9	54.4	
Eastern Europe	22.4	25.3	27.6	32.4	36.8	38.4	44.7	
Others <u>b/</u>	6.5	6.9	7.7	9.1	9.3	9.5	9.7	

a. Excluding Western crude oil delivered to third parties on Soviet account: 1.5 million tons in 1969, 2.5 million tons in 1970, and 3.3 million tons in 1971.

b. Including Cuba, the People's Republic of China (PRC), North Korea, North Vietnam, Yugoslavia, and Mongolia.

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12. In 1971, Communist countries imported 10 million tons of oil – up about 1.8 million tons over 1970. All but 400,000 tons was crude oil from the Middle East and Africa. Product imports were mostly lubricants and other specialty items purchased chiefly from Western Europe. Crude oil imports were financed primarily under barter arrangements and involved little or no hard currency expenditure. The USSR uses such imports to help meet its export commitments to both its Communist and non-Communist customers. In contrast, East European countries use most Western oil to supplement imports from the Soviet Union and to keep domestic refineries operating at capacity. Sales of refined products in excess of local demand represent a small but important source of hard currency earnings for Eastern Europe.

Soviet Union

13. In 1971, Soviet crude oil imports from the West⁽³⁾ were about 3.2 million tons – all delivered to third parties – an increase of 800,000 tons over 1970 imports. Egypt, Algeria, and Nigeria were the sole suppliers. The crude oil was delivered directly to Soviet customers, including the 2.1 million tons shipped by Egypt from the Red Sea on Soviet account to Cuba, East Germany, Bulgaria, and, perhaps, to Spain, France, and Yugoslavia. Small deliveries may have been made also to Soviet customers in west Africa. Nigeria supplied 400,000 tons of crude oil, which was delivered to Ghana.

Eastern Europe

14. Eastern Europe imported about 6.4 million tons of crude oil from the Middle East and North Africa in 1971 (see Table 5), about 1 million tons more than in 1970. Another 2.5 million tons were received from these sources on Soviet account. About 300,000 tons of refined products were purchased from Western Europe. Romania, the main East European importer of Western oil, bought 2.8 million tons, including 2.5 million tons from Iran via the Trans-Israel pipeline. Bulgaria, the most diversified importer, obtained oil from five Middle Eastern and North African countries. East German crude oil imports came from Egypt and Iran. A million tons of crude oil from Iran were purchased by a West German trading firm for processing in East Germany. East Germany in turn re-exported about 760,000 tons of finished products to West Berlin. Czechoslovakia received at least 230,000 tons of oil as a result of a quadripartite agreement with Iraq, Italy, and the USSR negotiated in 1970. Under this agreement,

3. Excluding an 800,000-ton swap with BP.

Table 5
Estimated Communist Crude Oil Imports
from Africa and the Middle East
1971

Thousand Metric Tons							
To							
From	USSR	Bulgaria	East Germany	Czech-slovakia	Romania	Hungary	Total
Algeria	750 a/	400	--	--	--	--	1,150
Egypt	2,100 b/	200	700	--	--	100	3,100
Iran	--	240	1,000 c/	--	2,460	--	3,700
Iraq	--	--	--	230 d/	210	--	440
Libya	--	350	--	--	80	--	430
Nigeria	400 e/	--	--	--	--	--	400
Syria	--	420	--	--	--	--	420
Total	3,250 f/	1,610	1,700	230	2,750	100	9,640

a. Delivered to Bulgaria, Spain, and Yugoslavia.

b. Delivered to Bulgaria, East Germany, and Cuba and possibly some small amounts to Spain, France, and Yugoslavia.

c. Purchased by a West German trading firm and delivered to East Germany for processing.

d. Procured by Czechoslovakia but delivered to Italy.

e. Delivered to Ghana.

f. Excluding an 800,000-ton swap with British Petroleum.

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Czechoslovakia sells Iraqi crude oil to Italy and uses the hard currency to purchase an equivalent amount of oil from the USSR via the Friendship crude oil pipeline.

Prospects

15. Communist petroleum sales to the West during the next few years probably will range between 50 million and 55 million tons - about the level of the last five years. The USSR will continue to account for the lion's share and Western Europe will still be the principal market. Although the volume of these Soviet oil exports will remain relatively constant, the value should increase with the expected rise in world oil prices. As a result, oil will continue to be the USSR's largest single source of foreign exchange.

16. Although the USSR has abundant oil reserves, many potentially prolific fields are located in remote, inaccessible areas, and exploitation will involve high costs and long delays. Nevertheless, production is planned to increase some 30% by 1975 to about 500 million tons. Most of the increase, however, will be needed to meet growing demand in both the USSR and Eastern Europe. Soviet exports of crude oil alone to Eastern Europe are expected to reach about 60 million tons in 1975, or 50% above the 1971 level.

17. Over the next two to three years, Communist imports of petroleum from the West are certain to increase substantially from last year's level of some 10 million tons. Soviet imports - now about one-third of the total - may well increase to meet Moscow's export commitments to other Communist countries. This will, in turn, help make available additional quantities of Soviet oil for hard currency sales to the West. Moscow has already arranged to receive one million tons of crude oil this year from Iraq's North Rumaila oilfield, which was developed with Communist help. The goal for the next three years is 2 million tons annually.

18. Moscow might also be tempted to purchase some oil that might be available should major oil producing countries nationalize foreign concessions. However, the prospects for importing substantial quantities of such "hot" oil are mixed, especially in the next year or so. Many physical constraints operate against large-scale imports into the Soviet land mass. Unloading facilities are limited, and pipelines from Soviet ports to major consuming areas are generally non-existent. The same constraint would operate if the USSR were to try to rapidly divert imported oil to Eastern Europe. It is possible that Moscow would attempt to sell "hot" oil directly in Western markets, and some small-scale sales could probably be made. Large-scale sales, however, are much less certain. In the past, Western oil companies have been quite successful in preventing sizable sales of nationalized oil. Whether they would be similarly successful in the future would depend in large measure on the support they get from the governments of the consuming countries.

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